

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 L-03 H-02 PA-02 DOE-15 SOE-02 AGRE-00  
DOEE-00 /122 W

-----094000 230028Z /15

P 230004Z MAR 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC PRIORITY 6759  
INFO ALL CONGENS CANADA POUCH

UNCLAS SECTION 01 OF 02 OTTAWA 01444

DEPT PASS TREASURY

E.O. 11652: N/A  
TAGS: ECON, EFIN, CA  
SUBJECT: ECONOMIC DEVELOPMENTS IN CANADA: WEEK OF  
MARCH 15-21

REF: OTTAWA 1357

1. SUMMARY. CONFERENCE BOARD HAS REVISED DOWNWARD ITS  
FORECAST OF CANADIAN GROWTH IN 1978 TO 4.5 PERCENT.  
FEDERAL DEFICIT IN CURRENT FISCAL YEAR WILL BE CDOLS 8.8  
BILLION AND IS NOW ESTIMATED AT CDOLS 11 BILLION IN FISCAL  
YEAR BEGINNING IN APRIL. CANADIAN DOLLAR REMAINS WEAK  
DESPITE INCREASE IN INTEREST RATES. WHOLESALE PRICES  
AND INDUSTRIAL SELLING PRICES ROSE OVER ONE PERCENT IN  
JANUARY. INDUSTRIAL PRODUCTION FELL 1.1 PERCENT AND  
REAL DOMESTIC PRODUCT WAS DOWN 0.3 PERCENT IN JANUARY.  
RETAIL SALES REMAIN STRONG. END SUMMARY.

2. CONFERENCE BOARD IN CANADA HAS REVISED DOWNWARD ITS  
FORECAST FOR 1978 GROWTH OF THE CANADIAN ECONOMY TO 4.5  
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PERCENT FROM FIVE PERCENT. THIS LEAVES ESSENTIALLY  
ONLY FINANCE MINISTER CHRETEN PREDICTING FIVE PERCENT  
GROWTH. CONSENSUS FORECAST, BASED ON PRIVATE FORECASTS  
MOSTLY USING DATA THROUGH THIRD QUARTER OF 1977, IS 4.2  
PERCENT. (EMBASSY FORECASTS FOUR PERCENT). CONFERENCE  
BOARD REVISION BASED IN PART LOWER THAN EXPECTED GROWTH  
IN FOURTH QUARTER 1977. IT SEES STRENGTH COMING FROM

STRONG FOREIGN BALANCE AND STRONG CONSUMER DEMAND, BUT WEAK PRIVATE INVESTMENT GROWTH AND LITTLE PUSH FROM GOVERNMENT SECTOR.

3. BUSINESS CONFIDENCE. LATEST CONFERENCE BOARD SURVEY SHOWS SLIGHT IMPROVEMENT IN BUSINESS CONFIDENCE, BUT LITTLE EXPECTATION OF GREATER INVESTMENT. BUSINESSMEN EXPECTING IMPROVED ECONOMIC CONDITIONS INCREASED IN FIRST QUARTER SURVEY TO 26 PERCENT FROM 23 PERCENT IN FOURTH QUARTER. HOWEVER, THOSE PLANNING INCREASED CAPITAL SPENDING DECREASED TO 44 PERCENT FROM 48 PERCENT THREE MONTHS AGO.

4. INVESTMENT PLANS. STATCAN HAS REVISED UPWARD EARLIER FIGURES ON PLANNED PUBLIC AND PRIVATE INVESTMENT IN 1978 TO SHOW 5.4 PERCENT GROWTH IN CURRENT DOLLARS RATHER THAN ORIGINAL ESTIMATE OF 4.8 PERCENT INCREASE. (SEE OTTAWA 1064) HOWEVER, CHANGE WAS NOT DUE PRIMARILY TO HIGHER ESTIMATES FOR 1978 BUT TO LOWER REVISED ESTIMATES FOR ACTUAL INVESTMENT IN 1977. NEW ESTIMATES SHOW GOVERNMENT SECTOR INVESTMENT UP 4.0 PERCENT IN 1978, DOWN FROM 10.3 PERCENT INCREASE LAST YEAR, AND PRIVATE SECTOR INVESTMENT UP 6.3 PERCENT, DOWN FROM A 8.0 PERCENT INCREASE IN 1977.

5. PRIVATE SECTOR INVESTMENT PLANS IN MOST PROVINCES  
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SHOW NOMINAL INCREASE, WITH EXCEPTION OF QUEBEC. PRIVATE SECTOR INVESTMENT IN QUEBEC EXPECTED TO DROP 0.9 PERCENT, PUBLIC SECTOR INVESTMENT TO RISE 11 PERCENT, WITH OVERALL INVESTMENT IN QUEBEC IN 1978 UP 4.2 PERCENT, DOWN FROM A 10.2 PERCENT INCREASE LAST YEAR. AS PRICES OF CAPITAL GOODS ARE EXPECTED TO RISE ABOUT EIGHT PERCENT IN 1978, REVISED SURVEY CONFIRMS EARLIER ESTIMATES OF DECLINE IN OVERALL VOLUME OF INVESTMENT IN CANADA THIS YEAR.

6. ECONOMIC INDICATORS. APPARENT PARADOX CONTINUES OF WEAK DOMESTIC PRODUCTION BUT STRONG CONSUMER SPENDING PATTERS.

--THE INDEX OF REAL DOMESTIC PRODUCT IN JANUARY DECLINED 0.3 PERCENT TO 128.6 (1971 EQUALS 100) FROM 129.0 IN DECEMBER. THE RDP INDEX HAS NOW BEEN FLAT TO NEGATIVE FOR THREE MONTHS.

--THE INDEX OF INDUSTRIAL PRODUCTION DECLINED IN JANUARY BY 1.1 PERCENT TO 124.2 (1971 EQUALS 100)

--THE INDEX OF INDUSTRIAL SELLING PRICES ROSE 1.2 PERCENT

IN JANUARY AND IS NOW 7.6 PERCENT HIGHER THAN A YEAR EARLIER

--THE WHOLESALE PRICE INDEX ROSE 1.4 PERCENT IN JANUARY AND IS 8.8 PERCENT HIGHER THAN A YEAR EARLIER.

--RETAIL SALES HAVE CONTINUED TO SHOW STRENGTH. DECEMBER FIGURES WHICH FIRST SHOWED A DECLINE HAVE BEEN REVISED

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UPWARD TO SHOW A GAIN AND INCREASED ANOTHER 2.1 PERCENT IN JANUARY. THE ANNUAL RATE OF INCREASE FOR RETAIL SALES FOR THE THREE MONTH PERIODS ENDING IN NOVEMBER, DECEMBER, AND JANUARY SHOW AN ACCELERATING PACE, GOING FROM 13 TO 20 TO 23 PERCENT ANNUAL RATES OF INCREASE RESPECTIVELY.

7. GOVERNMENT FINANCE. FINANCE MINISTER CHRETEN HAS ANNOUNCED THAT THE FEDERAL DEFICIT IN THE CURRENT FISCAL YEAR WILL BE CDOLS 8.8 BILLION AND CDOLS 11 BILLION IN THE FISCAL YEAR BEGINNING APRIL 1. MUCH OF THE INCREASE WILL BE DUE TO ACCRUED INTEREST AND BONUS PAYMENTS ON CDOLS 2.6 BILLION OF CANADA SAVINGS BONDS WHICH WILL COME DUE IN NOVEMBER (BONUSES WERE ADDED TO OUTSTANDING BONDS IN PAST YEARS WHEN MARKET INTEREST RATES WERE RISING TO FORESTALL CASHING IN ON THE BONDS).

8. ESTIMATES OF THE CDOLS 11 BILLION DEFICIT WAS GREETED WITH SOME SKEPTICISM IN PARLIAMENT, AS ESTIMATES OF DEFICIT FOR CURRENT FISCAL YEAR HAVE BEEN REPEATEDLY

REVISED UPWARD FROM CDOLS 6.4 BILLION A YEAR AGO TO 8.5  
BILLION A MONTH AGO, TO THE CURRENT FIGURE OF 8.8 BILLION.

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9. PRICES AND YIELDS OF THREE PART 750 MILLION U.S. DOLLAR  
GOC BOND ISSUE TO BE ISSUED THIS WEEK IN NEW YORK WERE  
ANNOUNCED MARCH 21. SEE OTTAWA 1424 FOR DETAILS.

10. EXCHANGE RATE. THE CANADIAN DOLLAR HAS FAILED TO  
SHOW MUCH IMPROVEMENT FOLLOWING THE INCREASE IN THE BANK  
RATE MARCH 8 (SEE REFTEL). CANADIAN DOLLAR CLOSED  
MARCH 10 AT .8909 U.S. DOLLARS, UP FROM .8868 JUST BEFORE  
THE RATE INCREASE ANNOUNCEMENT, BUT SPENT MOST OF LAST  
WEEK AT BELOW 89 U.S. CENTS, CLOSING MARCH 17 AT .8883.  
AVERAGE FOR WEEK WAS .8894, DOWN FROM .8901 FOR WEEK  
ENDING MARCH 10. PLACKE

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## Message Attributes

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